

Message Text

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ACTION EUR-08

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USMISSION OECD PARIS

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C O N F I D E N T I A L SECTION 01 OF 02 BONN 17802

LIMDIS

PASS TREASURY FOR UNDER SECRETARY BENNETT, ASSISTANT
SECRETARY COOPER, AND L. WIDMAN

E.O. 11652: GDS

TAGS: EFIN, ECON, GW

SUBJECT: GERMAN ECONOMIC POLICY

1. SUMMARY. GOVERNMENT AND BUNDESBANK EXPERTS ARE NOW IN THE PROCESS OF WORKING OUT AGREEMENT ON AN EXPANSIONARY ECONOMIC POLICY PROGRAM ANNOUNCED BY CHANCELLOR SCHMIDT. THE EXPERTS FROM THE FINANCE AND ECONOMIC MINISTRIES ARE FAVORING A RELATIVELY SMALL PROGRAM CONCENTRATING ON INVESTMENT INCENTIVES. THE CHANCELLOR'S OFFICE MAY FAVOR SOME MORE GENERAL EXPANSION OF DEMAND, HOWEVER, EVEN IF THIS SHOULD MEAN SOME INCREASE IN THE RATE OF INFLATION. THE CABINET IS EXPECTED TO DISCUSS A PROGRAM EARLY IN DECEMBER SO THAT THE CHANCELLOR CAN BRIEF THE EC SUMMIT ON IT PRIOR TO FINAL AGREEMENT IN THE CABINET BEFORE THE END OF THE YEAR. END SUMMARY.

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2. THE FOLLOWING IS BASED ON CONVERSATIONS THE

FINANCIAL ATTACHE HAS HAD DURING THE LAST FEW DAYS WITH KEY POLICY OFFICIALS (AT THE ASSISTANT SECRETARY LEVEL) IN THE CHANCELLOR'S OFFICE AND THE FINANCE AND ECONOMICS MINISTRIES. PLEASE PROTECT.

3. CHANCELLOR SCHMIDT'S RECENT PUBLIC ANNOUNCEMENTS THAT THE FEDERAL GOVERNMENT WOULD DURING DECEMBER AGREE ON MEASURES TO COUNTER RECESSIONARY TRENDS IN THE ECONOMY AND THAT GERMAN ECONOMIC POLICY WOULD MOVE INTO AN EXPANSIONARY DIRECTION AROUND THE TURN OF THE YEAR HAD NOT BEEN COORDINATED WITHIN THE GOVERNMENT AND PARTICULARLY NOT WITH ECONOMICS MINISTER FRIDERICH'S (WHO AT THE TIME WAS TRAVELING ABROAD) AND THE FDP COALITION PARTNERS. THE MINISTRIES ARE NOW IN THE PROCESS OF TRYING TO WORK OUT AN AGREED PROGRAM AND DISCUSSIONS WITH THE BUNDESBANK ARE SCHEDULED FOR NEXT FRIDAY. IN THE MEANTIME IT HAS BEEN ANNOUNCED THAT SCHMIDT WILL BRIEF GISCARD ON THE PROGRAM DURING THE UPCOMING EC SUMMIT.

4. AT AN EXPERT LEVEL, THE FINANCE AND ECONOMICS MINISTRY FOR ONCE SEE THE ECONOMIC SITUATION ABOUT IDENTICALLY. THEY ARE SLIGHTLY MORE OPTIMISTIC THAN THE BUNDESBANK (SEE BONN 17120) AND BELIEVE THAT EVEN WITHOUT LARGE SCALE STIMULATIVE MEASURES GERMAN 1975 GNP IS LIKELY TO GROW IN REAL TERMS SOMEWHERE IN THE MIDDLE OF THE 2-3 PERCENT RANGE, WITH THE PRICE DEFLATOR AT ABOUT 6.5 PERCENT. GENERALLY THEIR 1975 PROJECTIONS ARE CLOSELY IN LINE WITH THOSE OF THE ECONOMIC RESEARCH INSTITUTES (SEE BONN 16713) EXCEPT THAT THEY PROJECT A SOMEWHAT LOWER NET FOREIGN BALANCE. ON THE POLICY SIDE, THE TWO MINISTRIES ARE IN CLOSE AGREEMENT WITH THE BUNDESBANK IN BELIEVING THAT THERE IS RELATIVELY LITTLE LEEWAY FOR ADDITIONAL EXPANSIONARY MEASURES BEYOND THE TAX REFORM SCHEDULED TO GO INTO EFFECT ON JANUARY 1, 1975 AND THE ADDITIONAL AUTOMATIC STABILIZERS COMING INTO PLAY IF SLOWER THAN ORIGINALLY ASSUMED ECONOMIC GROWTH REDUCES TAX RECEIPTS AND FURTHER WIDENS THE HUGE 1975

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GOVERNMENT BUDGET DEFICITS. THEY DO NOT ADVOCATE ANY VERY LARGE SCALE ADDITIONAL PROGRAMS OUT OF THE CYCLICAL RESERVE FUNDS THE GOVERNMENT HAS ON DEPOSIT WITH THE BUNDESBANK AND BELIEVE SOME OF THESE FUNDS SHOULD BE USED TO HELP MEET ORDINARY BUDGET DEFICITS IN 1975. WHILE THEY MAY FAVOR A SLIGHT RELAXATION OF MONETARY POLICY, THEY GENERALLY AGREE WITH THE BUNDESBANK THAT PRICE PRESSURES IN THE ECONOMY ARE

STILL TOO GREAT TO ALLOW A MAJOR RELAXATION AND THAT,
IN ANY CASE, INTERNATIONAL CONSIDERATIONS (MONEY
OUTFLOWS AND EXCHANGE RATE CHANGES) PUT FAIRLY
NARROW LIMITS ON GERMAN MONETARY POLICY.

5. THE TWO MINISTRIES ARE THUS LOOKING FOR A PROGRAM

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 17802

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WHICH CAN BE MADE TO LOOK SOMEWHAT LARGER THAN IT

ACTUALLY IS AND

MINIMIZES THE EFFECT ON THE GOVERNMENT

BUDGET. THEIR EMPHASIS IS ON MEASURES WHICH MIGHT

IMPROVE THE INVESTMENT CLIMATE. WHILE THEY BELIEVE
THAT HIGHER PROFITS (I.E. REASONABLE WAGE SETTLEMENTS)

RE THE KEY IN THIS REGARD, THEY ARE ALSO DEVELOPING

PLANS FOR SOME MORE DIRECT INCENTIVE INCLUDING
POSSIBLY AN INVESTMENT PREMIUM (FRIDERICH'S PROBABLY
ALSO WOULD LIKE TO SHELVE CO-DETERMINATION IN ORDER
TO IMPROVE THE BUSINESS/GOVERNMENT CLIMATE, BUT
REALIZES THAT THIS IS POLITICALLY NOT POSSIBLE).

6. THE VIEW OF THE ECONOMIC SITUATION IN THE
CHANCELLOR'S OFFICE IS CONSIDERABLY DIFFERENT, AT
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LEAST IN IMPORTANT NUANCES, FROM THAT IN THE FINANCE

AND ECONOMICS MINISTRIES AND THE BUNDESBANK. THE

CHANCELLOR'S ECONOMIC EXPERTS DO NOT SEEM AS SURE
THAT WITHOUT ADDITIONAL SIGNIFICANT EXPANSIONARY
POLICY MEASURES 1975 REAL GROWTH WILL EVEN REACH THE
2 PERCENT MARK. WHILE THEY ARE AT THIS POINT VERY
RESTRAINED AND CAUTIOUS IN THEIR COMMENTS, ONE GAINS
THE IMPRESSION THAT THEY BELIEVE SOME SIGNIFICANT
STIMULATION OF GENERAL DEMAND IS CALLED FOR IN ADDITION
TO SPECIFIC MEASURES TO STIMULATE INVESTMENT AND THAT
ECONOMIC POLICY SHOULD PUSH 1975 REAL GNP GROWTH AS
CLOSE TO 3 PERCENT AS POSSIBLE, EVEN IF THIS MEANS SOME
INCREASE IN THE INFLATION RATE.

7. COMMENT. POLITICAL PRESSURES IN THE SPD FOR
ACTION TO COUNTER GROWING UNEMPLOYMENT IS INCREASING
RAPIDLY WITH THREE STATE ELECTIONS COMING UP NEXT
SPRING, INCLUDING THE IMPORTANT NORTH RHINE WESTPHALIAN
ELECTION IN MAY. FINANCE MINISTER APEL THUS IS LIKELY
TO JOIN THE CHANCELLOR IN PRESSING FOR A SOMEWHAT

LARGER PROGRAM THAN
THE EXPERTS CURRENTLY ADVOCATE.
BUT BOTH SCHMIDT AND APEL ALSO KNOW THAT TOO MUCH
EXPANSION NOW MAY REQUIRE STEPPING ON THE BRAKES AGAIN

IN THE CRUCIAL 1976 FEDERAL ELECTION YEAR. END
COMMENT.
HILLENBRAND

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